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SUBJECT: IRAQ MINISTRY OF OIL PREPARES TO INVITE IN FOREIGN
OIL COMPANIES

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[B](#). BAGHDAD 647

Classified By: Economic Counselor Michael Dodman, reasons 1.4(b,d)

[1](#). (C) Summary: Iraq will launch talks with international oil and gas companies on long-term Technical Service Contracts (TSCs) at a conference in London on October 13. Oil Minister Shahrستاني will meet with representatives of 41 pre-qualified companies to invite their participation in six oil and two gas fields. These contracts will provide help to reverse declines in current production, although it will be at least two years before the first fruits are seen in output levels. Shahrستاني appears to be resigned to lack of progress on the Hydrocarbons Framework Law. Success of the TSCs, however, would signal that Iraq is open to international investment, which might renew the Kurdistan Regional Government's (KRG) interest in passage of hydrocarbons legislation as an avenue to develop its oil and gas fields further. End summary.

The Bidding Process

[1](#)2. (SBU) Iraqi Oil Minister Husayn al-Shahrستاني will present TSC terms and conditions to international oil companies (IOCs) at an October 13 meeting in London. Shahrستاني has told the media in the past that he wants the TSCs, with a duration of up to 20 years, to add 1.5 million barrels per day (mbbl/d) to Iraq's current oil output of approximately 2.5 mbbl/d. IOC representatives have complained to us that they have not received advance information regarding the meeting, but Shahrستاني has also indicated publicly that the IOCs will have until March 2009 to review the proposals and submit bids, which would then be awarded the following June. Every company bidding must have an Iraqi partner and pass along at least 25% of the value of the contracts to Iraqi companies. Shahrستاني has said that the emphasis would be on the financial terms offered, rather than the technical qualifications of the bidder. In repeated public statements Shahrستاني has boasted of his desire to defend Iraq's resources and interests: he has rejected production sharing agreements in favor of straight, fixed-fee service contracts. We have also heard that he will encourage the bidders to form consortia among themselves to better their chance of receiving a contract. This "first licensing round" opens six currently producing oil fields and two gas fields, and will be followed by a second before the end of the year for undeveloped fields.

[1](#)3. (SBU) During an October 6 meeting, Shahrستاني provided additional details of the licensing process to EMIN Wall. (Other topics will be reported septels.) He said the qualified companies who pay the required fee will be provided passwords to access field data packages on the internet. (Note: MoO has contracted with Gaffney, Cline, and Associates, GCA, an international energy consulting firm, to

implement the licensing round.) On October 13, MoO will also provide a model contract on the internet to be used in preparing bids. MoO had decided to award technical service contracts, since the fields on offer were already producing; the TSCs would require winning bidders to implement enhanced oil recovery, among other measures. MoO has determined a baseline production level based on the field's average monthly output. The winning bidder would receive a fee per barrel for maintaining the level of output and another fee (note: presumably higher) for each additional barrel of output. While the primary determinant would be financial, MoO would also be looking at technical details. Shahrستاني noted that, for example, he might not want to select a company that might ramp up production and quickly exhaust the field's resources over a company that managed the field's potential more conservatively.

14. (C) Shahrستاني also said MoO had been careful to incorporate all procedures and conditions of the draft Hydrocarbons Framework Law, although he lamented that the law had been caught up in the political process leading to elections and was unlikely to be passed any time soon. The Cabinet, for example, would approve the TSCs, which would mean the GOI had reviewed the contracts at a level higher than the Federal Council for Oil and Gas envisioned in the draft law. Shahrستاني added that a second bid round would be held by December. MoO was currently discussing which fields to offer, but the fields would be similar to the ones in the first bid round, large producing fields with declining production. He realized the bid round was a learning process, but he had been pleased with IOC feedback. Shahrستاني said that MoO might begin holding bid rounds

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about every three months until contracts had been awarded on all of Iraq's discovered fields, which numbered around 80. Then, MoO would license exploration blocks, which would probably require some contractual arrangement other than a TSC. He optimistically forecast that Iraq would be able to reach 4.5 million barrels per day (BBL/D) of production in five years, and, through the second and third bid rounds, reach 6 million BBL/D in 10 years. This approach was consistent with a Cabinet decision to increase production as quickly as possible by utilizing IOC expertise.

The Qualified Bidders

15. (SBU) As we reported ref B, the Ministry of Oil (MoO) announced the 35 companies which qualified to bid in the upcoming licensing round on April 14. (On June 24, MoO qualified six additional countries' national oil companies, NOCs, for a total of 41.) In doing so, the MoO stated that 120 companies had applied, and that it would continue updating its list to qualify as many more companies as possible in the second licensing round. Shahrستاني said separately that he had ruled out any company that had signed contracts (usually Production Sharing Contracts, PSCs) with the KRG. The media reported on September 29 that state-owned Turkiye Petrolleri AO replaced Premier from the original list. Following are the companies:

U.S. (7):

- Exxonmobil
- Chevron Iraq Ltd.
- Conoco Phillips
- Hess Corporation
- Marathon International Petroleum Limited
- Occidental Petroleum
- Anadarko Iraq Company

UK (2):

- BP
- BG International

Russian (2):

-- Lukoil
-- JSC Gazprom Neft

Other European (8):

-- Edison International SPA, Italy
-- ENI, Italy
-- Maersk, Denmark
-- Statoil Hydro, Norway
-- Repsol, Spain
-- Shell Iraq, Netherlands
-- Total, France
-- Wintershall BASF Group, Germany

Chinese (4):

-- CNPC
-- CNOOC China Ltd
-- Sinochem
-- Sinopic Group

Japan (4):

-- Inpex Holding
-- Japex
-- Mitsubishi Corporation
-- Nippon Oil

Australian (2):

-- BHP Billiton Petroleum Pty Ltd
-- Woodside

Other Asian (4):

-- Pertamina, Indonesia
-- Kogas, Korea
-- Petronas, Malaysia
-- ONGC, India

Others (2):

-- Nexen Inc. (International Oil & Gas Nexen Inc.), Canadian
-- Turkiye Petrolleri AO, Turkish

Additional countries' NOCs (6):

-- Vietnam (Petrovietnam)
-- Algeria (Sonatrach)
-- Angola (Sonangol)
-- Pakistan (Pakistan Petroleum, Ltd., PPLKA)
-- Thailand (PTT, formerly Petroleum Authority of Thailand)
-- Turkey (TPAO)

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16. (S) Comment: The licensing round, despite Shahrastani's claims, might be neither a transparent nor open process, but we can speculatively handicap this race. The major IOCs (including Exxon, Shell, Total, BP, and Chevron), which had been in negotiations that were cancelled originally for two-year TSCs, have the technical capability and financial resources to deliver on their commitment to increase production. MoO might now decide to compensate them for the no-cost assistance rendered in the past and the time spent on ultimately fruitless negotiations by awarding contracts to them. The companies on the list that were awarded PSCs during the Saddam regime, Lukoil, Pertamina, and Petrovietnam, could also have an edge. Finally, we have received information that ENI, Repsol, and Nippon Oil were informally advised that they would not receive awards in the licensing round, and so have instead been invited to develop the Nasiriya oil field (septel). The information suggests that, whatever bids are offered, Shahrastani has possibly already short listed which companies will get licenses and that part of his strategy is to spread the licenses as widely as possible among different companies and countries. End comment.

The Oil and Gas Fields

17. (U) The two gas fields, Akkaz and Mansouriyah, have not

been developed and also have not been fully explored. The six oil fields are the following:

-- The Rumaila field, in Basra Province, comprises North Rumaila, with 10.3 billion barrels of reserves, and South Rumaila, with 7.5 billion barrels. North Rumaila currently produces about 500,000 barrels per day (bbl/d) and South Rumaila, approximately 530,000. BP was earlier offered a short-term TSC on the Rumaila field.

-- Originally developed in 1987, West Qurna holds 8.6 billion barrels of reserves, and was offered on a short-term TSC to a Chevron/Total partnership. The field, also in Basra Province, currently produces approximately 300,000 bbl/d.

-- Zubair, in Basra Province, holds 4.1 billion barrels of reserves and produces 250,000 bbl/d. The Zubair field was offered to Exxon on a short-term TSC.

-- The Maysan field, in Maysan Province, comprises Buzurgan with 612 million barrels of reserves, Fauqa with 1.5 billion, and Abu Ghirab with 450 million barrels. A short-term TSC on the field was offered to Shell in partnership with BHP.

-- Kirkuk, in Tamim Province, has 8 billion barrels of reserves and produces 375,000 bbl/d, but production is constrained by export and refinery capacity. The field was originally put on stream in 1934. It requires major subsurface and infrastructure rehabilitation to maintain and increase production.

-- Bai Hassan, also in Tamim Province, produces 115,000 bbl/d and 2.4 billion barrels of reserves. It also requires major subsurface and infrastructure rehabilitation to maintain and increase production.

The Potential and the Need

18. (SBU) With passage of hydrocarbons legislation stalled and unclear prospects for the future, the licensing round provides the opening for expanding IOC involvement in the transformation of the Iraqi petroleum sector. IOC expertise, particularly in modern enhanced recovery techniques, could help arrest production declines caused by years of neglect and aging of the fields. IOC procurement channels can also deliver world-class equipment and services expeditiously in an environment where oil exploration and production equipment is in short supply. The major oil fields in the south, which produces four-fifths of Iraq's oil, have been in gradual decline and especially require enhanced recovery techniques to increase production.

19. (C) On September 28, Shahrastani called an emergency meeting of his Director Generals and Technical Experts, including former South Oil Company Director General Jabbar al-Luaibi from Basra, to discuss measures to deal with production declines. Southern Oil fields, notably the Rumaila field, are faced with increasing levels of water being lifted with crude. The increase in water can be attributed to improper water injection techniques, poor pressure maintenance, and a strong reservoir water drive.

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(Note: BP and Chevron carried out independent reservoir management studies and arrived at the same conclusion for production declines; they recommended many of the same corrective measures. The MoO was unable to implement the majority of recommendations due to a general lack of technical expertise, availability of equipment and materials, and security. Measures required include additional wells, well re-completions, seismic surveys, mine removal, reservoir simulation models, and new surface facilities.)

10. (C) Comment: The TSC licenses are an avenue to build political acceptability of an IOC role in the Iraqi oil

sector. In addition, by demonstrating that Baghdad is moving towards engagement with the private sector, the TSCs could motivate the Kurdistan Regional Government (KRG) to come back to the table to conclude a national level hydrocarbon law. The licensing round is significant, with the potential to progress toward the GOI's high priority goals: increased production and breaking the impasse on the hydrocarbons framework law. However, in terms of production, the TSCs to be discussed this month are not a quick fix. It will be at least two years before the country will see increased output from these contracts. End comment.

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